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SUBJECT: OMAN'S 2008 BUDGET: MORE OF EVERYTHING

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Summary

¶1. (SBU) Oman's 2008 budget, unveiled by the Minister of National Economy on the first of the year, once again calls for increased expenditures, in anticipation of higher revenues, to boost energy production and to diversify the Sultanate's economy. The government projects a deficit for 2008; however, given the conservative estimates employed in calculating the budget, another surplus is almost certain. The Minister characterized the budget as a balance between promoting economic development and exercising fiscal responsibility in the wake of rising inflationary pressures. The budget, while exhibiting a noticeable increase in expenditures for development projects, did not contain an increase in public sector salaries, an omission met with public criticism. End Summary.

More Spending

¶2. (SBU) On January 1, Minister of National Economy Ahmed bin Abdul Nabi Macki presented the Sultanate's budget for calendar year 2008, as approved by the Sultan via Royal Decree 1/2008. The budget projects 2008 revenues to be 5.4 billion Omani rials (RO) (USD 14.0 billion), with expenditures predicted to equal 5.8 billion RO (USD 15.1 billion). While the budget leaves a projected deficit of 400 million RO (USD 1.1 billion), which equates to 3% of the GDP and 7% of revenues, Oman will most likely record another surplus at year's end, based on its tradition of conservatively estimating energy prices. The government premised this year's budget on oil selling for USD 45 per barrel, with domestic production estimated at 790,000 barrels per day. Based on these figures, oil sale proceeds are expected to account for 3.6 billion RO (USD 9.35 billion), or 67%, of anticipated government revenues, while gas sale income is projected to reach 620 million RO (USD 1.61 billion), or 11% of anticipated government revenues.

¶3. (U) Government expenditures for 2008 are expected to increase by 910 million RO (USD 2.36 billion), or 19% above 2007 spending levels. Operating expenses for the ministries are projected to account for 33% of the anticipated expenditures, with education and health care expenses accounting for almost 50% of ministerial operational budgets. Spending on education is expected to rise 101 million RO (USD 262.4 million), or 17%, over 2007 figures to a total of

710 million RO (USD 1.84 billion). The amount allocated for health care is up 15% from the previous year, equaling 228 million RO (USD 592 million). Defense spending is estimated to reach 1.36 billion RO (USD 3.53 billion) in 2008, slightly more than the amount authorized in the 2007 budget. Defense spending is projected to constitute roughly 25% of the overall expenditure budget, about the same as in 2007.

More Investment

¶4. (U) The government intends to continue spending on oil and gas production capabilities in 2008, earmarking 670 million RO (USD 1.74 billion) for oil production investment and 450 million RO (USD 1.17 billion) for gas production investment. These figures represent increases of 16% and 12.5%, respectively, over 2007 figures. An additional 725 million RO (USD 1.88 billion) has been set aside for various ministerial investment projects.

¶5. (U) The 2008 budget reflects a significant increase in spending on development projects as compared to what was envisioned at the beginning of the seventh five-year plan (2006-2010). With what has been proposed in the 2008 budget, there will be an increase of 2.36 billion RO (USD 6.13 billion) over the 3.02 billion (USD 7.84 billion) originally planned for development projects during the planning cycle. Benefiting from the augmentation of the development budget are road, airport, and port construction; gas production; housing; and health care

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Surplus in 2007

¶6. (U) Macki noted that the high price of oil contributed to another strong year for public finances in 2007, with preliminary estimates suggesting a GDP growth rate of 11.6% and a budget surplus of 1.72 billion RO (USD 4.47 billion). The Minister stated that the surplus would be used to strengthen the government's financial reserves. Oil revenues again masked declining oil production rates for Oman, which fell 4.5% for the first 10 months of 2007 as compared to 2006, reaching only 707,500 barrels per day.

Concerned about Inflation

¶7. (U) Macki commented to reporters that the government remained concerned about rising inflation, which was estimated by the Ministry at 5.3% from January-October 2007. For this reason, the Minister remarked that the government would slow down the tendering process on development contracts in efforts to check the rise of construction material prices, which he cited as one of the main drivers for inflation. Macki further stated that price hikes in food products were the result of external problems, such as droughts and restrictive export policies in source countries and the declining value of the dollar. The government would not step in to set price controls, added Macki, but would continue to subsidize the cost of electricity and water in 2008 at a cost of 179 million RO (USD 464.9 million). The Minister confirmed that the government would not drop the currency peg to the dollar; he did not propose a rise in salaries for government employees.

Where's the Generosity?

¶8. (U) The lack of salary increases in the budget drew criticism from the Arabic daily "Azzamn," which stated, "The

2008 State budget totally disregarded the rising cost of living." Traffic on the Arabic-language internet chat site "al-Sablah" on this subject was negative as well, as posters asked why there was no public sector wage increase in Oman when government employees elsewhere in the region, including Egypt, were getting raises. Others complained that since local price increases were "obvious," the government should compensate its workers accordingly. One poster questioned how the government could find the money to build an expensive opera house, but not fund wage increases. (Note: Construction of a new performing arts center is being funded by the palace, but the distinction between government and royal monies is lost on many Omanis. End Note.)

Comment

¶9. (SBU) With the unveiling of the 2008 budget, the government will continue to open its wallet to support the necessary infrastructure projects to diversify its economy away from energy production, especially in the industrial and tourism sectors. Special emphasis will be given to port and airport development, as well as the purchase of new aircraft for recently nationalized carrier Oman Air. Following a tradition of holding firm on salaries, however, it appears the government will not soon appease demands for public sector wage hikes. In spite of the criticism, and contrary to widespread rumors that a salary increase was on the horizon, government workers will instead likely need to wait until November (i.e. the Sultan's annual speech before the Majlis) to see if their wages will be augmented beyond the 15% granted in November 2006.

¶10. (SBU) Post further expects the government, through its traditional conservative estimation of oil prices, to post another surplus for 2008. Whether the government will be able to generate the kind of surpluses it has over the past two years will depend not only on the price of oil, but on the ability of its two main oil producers, Petroleum Development Oman and Occidental Petroleum, to meet the government's optimistic production targets.
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